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MEMORANDUM

TO: The Honorable Chuck Moss, Chair & Members
House Appropriations Committee

FROM: Felicia Wasson, Associate State Director – Government Affairs FW

DATE: May 23, 2012

RE: Opposition to SB 1040

AARP opposes Senate Bill due to its extreme negative impact on the financial security of current and near-retirees. We also implore you consider the financial implications this measure will have on the State, as defined benefit plans offer the best bang for the taxpayers' buck..

Current and near-retirees do not have the opportunity to pivot their retirement strategy and should not be asked to shoulder the burden of changes to the retirement system. These workers and retirees have spent their lives working hard, paying into the retirement system, and making tough, personal financial decisions to ensure they would have a retirement income they can count on.

Senate Bill 1040 will significantly erode the financial security of their retirement. Lowering the maximum premium coverage paid by the State and retroactively applying the graded premium subsidy plan to current retirees will drastically increase healthcare costs for retirees. In some cases premiums will ***double***, which means retirees will have fewer dollars to pay their mortgage or heat bills, or to purchase groceries and life-saving medicines.

Raising the age eligibility for retiree health care will also have troubling effects on those retirees who are ineligible for Medicare due to age. These individuals often retire early due to medical limitations and rely largely on their public pension to subsist.

The amount of savings the State is estimating from this bill is roughly $100 million in the next fiscal year, a cost that will be shifted onto retirees.

The savings the state sees from this bill will come directly out of the pockets of near and current retirees. SB 1040 would require these folks, who have the least opportunity to pivot their retirement strategy, to shoulder the heaviest burden.

$100 million less in the pockets of retirees is $100 million less that they will have to spend in their local economies, which means $100 million less to support jobs and local businesses. Michigan cannot afford to shrink the impact of consumer spending in our economy.

Furthermore, those expected state "savings" are likely to be offset as more retirees, whose incomes continue to shrink, find themselves in need of assistance from social safety net programs run by the State. AARP also calls upon legislators to consider the precedent being set by the elimination of retiree health care coverage for all new employees, a move that is both alarming and extreme. And which, by the way, will actually cost the state a significant sum of money up front in the creation of these "401k accounts for healthcare."

Senate Bill 1040 offers employees the option of paying more for the same benefit, continuing to make the same payments they make now and receiving a lesser benefit, or switching to a defined contribution (or 401k type) plan. It is our belief that these provisions may have constitutional implications, with regard to the diminishment of a contractual obligation.

The shift toward the defined contribution option is problematic for several reasons.

This shift will undermine the State's ability to meet the benefit promises it has made to those employees who remain under the current defined benefit plans, and endanger the retirement income of current retirees. By lowering the total amount of contributions coming into the plan, investments will need to be more liquid and conservative, and likely less diversified. Investment returns will likely fall, thereby increasing necessary contributions by taxpayers. As the current defined benefit plans will still need to be administered for current retirees and employees, the State will continue to incur costs associated with operating both systems.

Additionally, while defined contribution plans are valuable to many and function well as a ***supplemental*** savings vehicle, as a ***primary*** means for retirement savings they force employees to bear most, if not all, of the risk with regard to investment and inflation. By relying solely on defined contribution plans, employees risk outliving their retirement nest egg.

In short, defined contribution plans offer a ***lesser*** benefit at an ***increased*** cost to taxpayers.

In closing, AARP is here today to ask you to consider this bill's impact beyond just the numbers on a balance sheet. We are here to urge you to consider the impact of this proposed bill on the lives of Michigan retirees and near-retirees, and on the health of our state's economy as a whole. We urge you to vote NO on Senate Bill 1040.

Thank you again for your time, and your consideration of our concerns.